

BOSTON GAS COMPANY
D.T.E. 03-40

FIRST SET OF INFORMATION REQUESTS OF THE DEPARTMENT OF
TELECOMMUNICATIONS AND ENERGY TO
THE ATTORNEY GENERAL

Pursuant to 220 C.M.R. § 1.06(6)(c), the Department of Telecommunications and Energy (“Department”) submits to the Attorney General the following Information Requests:

INSTRUCTIONS

The following instructions apply to this set of Information Requests and all subsequent Information Requests issued by the Department to the Attorney General in this proceeding.

1. Each request should be answered in writing on a separate, three-hole punch page with a recitation of the request, a reference to the request number, the docket number of the case and the name of the person responsible for the answer.
2. Do not wait for all answers to be completed before supplying answers. Provide the answers as they are completed.
3. These requests shall be deemed continuing so as to require further supplemental responses if the Attorney General or its witness receives or generates additional information within the scope of these requests between the time of the original response and the close of the record in this proceeding.
4. The term “provide complete and detailed documentation” means:

Provide all data, assumptions and calculations relied upon. Provide the source of and basis for all data and assumptions employed. Include all studies, reports and planning documents from which data, estimates or assumptions were drawn and support for how the data or assumptions were used in developing the projections or estimates. Provide and explain all supporting work-papers.

5. The term “document” is used in its broadest sense and includes, without limitation, writings, drawings, graphs, charts, photographs, phono-records, microfilm, microfiche, computer printouts, correspondence, handwritten notes, records or reports, bills, checks, articles from journals or other sources and other data compilations from which information can be obtained and all copies of such documents that bear notations or other markings that differentiate such copies from the original.
6. If any one of these requests is ambiguous, notify the Hearing Officer so that the request may be clarified prior to the preparation of a written response.
7. Please file one copy of the responses with Mary Cottrell, Secretary of the Department and on all parties; also submit one (1) copy of the responses to John J. Geary, Hearing Officer, one (1) copy of the responses to Caroline M. Bulger, Hearing Officer, one (1) copy of the responses to Sean Hanley, Assistant Director - Rates and Revenue Requirements Division, one (1) copy of the responses to Paul E. Osborne, Assistant Director - Rates and Revenue Requirements Division, two (2) copies of the responses to A. John Sullivan, Rates and Revenue Requirements Division, and one (1) copy to Andreas Thanos, Assistant Director, Gas Division.
8. In addition to filing, all non-proprietary responses should be submitted by e-mail to dte.efiling@state.ma.us and to the e-mail address of any party required to be served.

INFORMATION REQUESTS

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| D.T.E. AG-1-1 | Refer to the testimony of Lee Smith at 1. Has Ms. Smith ever testified on behalf of a gas or electric utility before a public utilities commission or a public service commission on incentive ratemaking, including performance-based ratemaking (“PBR”) plans? If yes, please provide copies of Ms. Smith’s testimony in each proceeding. |
| D.T.E. AG-1-2 | Refer to the testimony of Lee Smith at 1, 24-25. Please quantify the risks and benefits to customers of the PBR formula proposed by Boston Gas. |
| D.T.E. AG-1-3 | Refer to the testimony of Lee Smith at 1-3. Please discuss Ms. Smith’s opinion of PBR plans in general; and specifically, her opinion regarding the PBR plans proposed by gas utilities in Massachusetts. Under what general conditions, including the term of the PBR proposal, would a PBR plan for a gas utility in Massachusetts be acceptable? |

- D.T.E. AG-1-4 Refer to the testimony of Lee Smith at 5-6. Please:
- 1) discuss the appropriate method for selecting a representative sample of Northeast gas utilities for a productivity study of the type performed by Dr. Kaufmann. Your response should include a step by step discussion of the research design that should be used to select a representative sample and the sample size that would be considered large enough for such a study; and
 - 2) discuss how you would address problems of missing and unreliable data in conducting such a study.
- D.T.E. AG-1-5 Refer to the testimony of Lee Smith at 7. What sample period should be used for the type of productivity study performed by Dr. Kaufmann? Provide reasons for your answer, including any empirical support.
- D.T.E. AG-1-6 Refer to the testimony of Lee Smith at 6; Boston Gas Company, D.P.U. 96-50 (Phase I) at 275 (1996). Does the productivity study conducted for the prior rate case provide any evidence that current productivity growth may be different in the Northeast than in the rest of the country?
- D.T.E. AG-1-7 Refer to the testimony of Lee Smith at 7-8. Please discuss what is meant by “medium term” and “longer term” in the context of your opinion that “a medium to longer term view of productivity growth is necessary.”
- D.T.E. AG-1-8 Refer to the testimony of Lee Smith at 7-8. What time period(s) would be indicative of the “normal” future growth rate for the (1) total business sector and (2) the gas industry? Provide support for your answer.
- D.T.E. AG-1-9. Refer to the testimony of Lee Smith at 9. Please provide support for your contention that the relationship between various energy prices is not related directly to the national business cycle.
- D.T.E. AG-1-10 Refer to the testimony of Lee Smith at 9. Please discuss how PEG should have taken into account “the impact of weather on the time period over which productivity was measured, or the impact of relative energy prices” in the measurement of productivity.

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First Set of Information Requests - Attorney General

- D.T.E. AG-1-11 Refer to the testimony of Lee Smith at 10. What is “EAIA”?
- D.T.E. AG-1-12 Refer to the testimony of Lee Smith at 10. Please provide support for your contention that “new housing construction may not follow the business cycle.”
- D.T.E. AG-1-13 Refer to the testimony of Lee Smith at 10. Please discuss the relative significance of the effect of the “factors described above” on PEG’s gas productivity analysis. Is the effect very significant, significant, somewhat significant, or not significant? Provide reasons and any support for your answer.
- D.T.E. AG-1-14 Refer to the testimony of Lee Smith at 11-12. Please provide support for your assertion that “many utilities in several states have survived and in some cases prospered with no increases in their delivery service rates.”
- D.T.E. AG-1-15 Refer to the testimony of Lee Smith at 11-12. Please provide support for your assertion that “the components of delivery service are not dramatically different between gas and electric utilities.” As part of your response, discuss any similarities and differences between the delivery services provided by gas utilities and electric utilities in relation to technology used, manpower requirements, and equipment needs.
- D.T.E. AG-1-16 Refer to the testimony of Lee Smith at 12. Please provide support for your recommendation that the Department should assume, absent PBR, that “the gas industry would experience productivity growth similar to productivity growth in the private business sector.” As part of your response, discuss any structural similarities and differences between the gas industry and the private business sector which warrant your recommendation. How different is your recommendation from the assumptions made by Dr. Kaufmann in his productivity study?
- D.T.E. AG-1-17 Refer to the testimony of Lee Smith at 11. As used in your testimony, is the “private business sector” the same as the “total business sector?”
- D.T.E. AG-1-18 Refer to the testimony of Lee Smith at 13. Define the term “average system prices” as used in your testimony. Please provide any support for your recommendation that the Department assume “gas input prices change at the same rate as the average system prices.”

- D.T.E. AG-1-19 Refer to the testimony of Lee Smith at 13-14. Using data for the period 1990 to 2002, please discuss any structural similarities and differences between the gas industry and the overall economy with respect to (1) the capital-output ratio, (2) the labor-output ratio, and (3) the capital-labor ratio.
- D.T.E. AG-1-20 Refer to the testimony of Lee Smith at 14-19. Please:
- 1) describe how you would design a cost study of the type performed by Dr. Kaufmann. State clearly your research design, including descriptions of the data, variables, econometric modeling and estimation methods you would use;
 - 2) support your choice of research method, including the data, variables, econometric modeling and estimation methods you would use; and
 - 3) discuss any differences between your research method and the method used by Dr. Kaufmann in his cost study.
- D.T.E. AG-1-21 Refer to the testimony of Lee Smith at 19. Please discuss why you expect that “Boston Gas’ system is dense relative to the nationwide sample?” What measure of density “might have produced better results” than the density variable used by Dr. Kaufmann in his study?
- D.T.E. AG-1-22 Refer to the testimony of Lee Smith at 21-22. Please discuss what is meant by the term “real evidence?” How would you demonstrate whether or not Boston Gas is an efficient performer?
- D.T.E. AG-1-23 Refer to the testimony of Lee Smith at 23. Please provide support for your observation that “the electric distribution companies reduced their labor forces significantly from about 1996 to the present, when faced with competitive pressures and with rate caps.”

- D.T.E. AG-1-24 Refer to the testimony of Lee Smith at 24. Please:
- 1) provide copies of any PBR plans proposed by gas or electric utilities in other jurisdictions. Also, provide copies of any commission orders regarding such PBR plans;
 - 2) for each PBR plan, provide a summary of both the proposed and approved: (a) price cap formulae (including the value of the parameters), (b) PBR plan term, and (c) earnings sharing mechanism;
 - 3) show how the consumer dividend was calculated in each case; and
 - 4) discuss the similarities and differences between each PBR plan and the PBR plan proposed by Boston Gas.

- D.T.E. AG-1-25 Refer to the testimony of Lee Smith at 29. Please:
- 1) provide the bases for your recommendation that, if the Department finds PBR is warranted, we use the same formula that was “utilized in the previous PBR plan;”
 - 2) provide any evidence supporting a consumer dividend of from 0.3 to 0.7 percent;
 - 3) provide theoretical and empirical support for the conclusion that “[t]aken together, rates should change at the rate of the Gross Domestic Price Inflator less 0.5%,” and
 - 4) discuss the reasons why Boston Gas’ proposed earnings sharing mechanism should be adopted.

- D.T.E. AG-1-26 Refer to the testimony of Lee Smith at 9, lines 3-5. Please provide support for your statement that “most projections are that economic growth will be slower in the next five years.

- D.T.E. AG-1-27 Refer to the testimony of Lee Smith at 10, lines 1-5. Please provide support for your assertion that the magnitude of the relative change in gas prices can be expected to lead to a reduction in gas use or in its rate of growth.

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First Set of Information Requests - Attorney General

- D.T.E. AG-1-28 Refer to the testimony of Lee Smith at 18, lines 1-4. Please provide support for your assertion that “each utility has a different proportion of total plant in these different plant accounts.”
- D.T.E. AG-1-29 Refer to the testimony of David J. Effron at 9. Please reconcile the difference between the total incremental cost adjustment of \$7,256,000 and the A&G expense of \$6,880,000.
- D.T.E. AG-1-30 Refer the testimony of David J. Effron at 14. Could the Company have made tax deductible contributions to its qualified pension plan in the years 1997 through 2000? If the response is negative, please explain why the contributions in 2001 and 2002 include a catch up for the zero funding in the earlier years.
- D.T.E. AG-1-31 Refer the testimony of David J. Effron at 16. Please explain why using a five year averaging period which includes three years of zero contributions provides a more representative level of future contributions to the Company’s qualified pension plan.
- D.T.E. AG-1-32 Refer to the testimony of David J. Effron at 16. Please explain why you recalculated the Company’s estimate of its 2003 SFAS 87 pension expense. Why is this figure relevant?
- D.T.E. AG-1-33 Refer to the testimony of David J. Effron at 17. Under the proposed reconciliation mechanism, will pension costs for cost of service purposes be measured by FAS 87 pension expense and not contributions to the Company’s pension plan, as was previously the case?
- D.T.E. AG-1-34 Refer to the testimony of David J. Effron at 18. Would the proposed reconciliation mechanism transfer the claimed volatility in pension costs from the Company to its ratepayers?